



# UNEMPLOYMENT BENEFITS IN SRI LANKA

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# EXISTING UNEMPLOYMENT PAYMENTS IN SRI LANKA

- 3% contributed by employer under the Employees' Trust Fund (ETF) scheme could be withdrawn at the cessation of employment
- Severance payment paid under Termination of Employment of Workmen Act (TEWA). The maximum compensation under TEWA is set at Rs.1,250,000 rupees.

# SEVERANCE PAYMENT UNDER TEWA

- 2.5 months of salary per year of service for the first five years of service, for a maximum compensation of 12.5 months of salary;
- 2.0 months of salary for each year between the 6th and the 14th year of service, for a maximum compensation of 30.5 months of salary;
- 1.5 months of salary for each year between the 15th and the 19th year of service, for a maximum compensation of 38.0 months of salary;
- 1.0 month of salary for each year between the 20th and the 24th year of service, for a maximum compensation of 43.0 months of salary; and
- 0.5 month of salary for each year between the 25th and the 34th year of service, for maximum compensation of 48.0 months of salary.

# LIMITATIONS

- Limited applicability
- There is no financial risk-pooling mechanism, so the costs fall exclusively on the employer.
- In case of an employer's lack of compliance or bankruptcy, workers simply do not receive a benefit. This will likely impact workers most in precarious employment situations the most as it is these employers who often do not pay.
- An employer liability approach creates negative incentives for employers to retain workers which impacts the good functioning of the labour market and has negative economic impacts.
- Discourage employment growth and investment

# PROPOSED SCHEME

Parameter	Option A	Option B
Coverage	Mandatory coverage for all paid employees (excluding self-employed and voluntary affiliations)	
Contribution requirement for benefit eligibility	6 months in the 12-month period preceding the employment termination	12 months in the 24-month period preceding the employment termination
Eligible reasons for termination of employment and continuation of benefits	<ul style="list-style-type: none"> <li>- Involuntary termination of employment or forced termination</li> <li>- Able and available for work and actively searching for a job</li> </ul>	
Contributory earnings	Monthly salary	
Unemployment benefit	<ul style="list-style-type: none"> <li>- The unemployment benefit is calculated as 45% of the average contributory earnings declared in the 6-month period preceding the employment termination</li> <li>- The unemployment benefit is paid for a maximum duration of 3 months</li> </ul>	<ul style="list-style-type: none"> <li>- The unemployment benefit is calculated as 50% of the average contributory earnings declared in the 12-month period preceding the employment termination</li> <li>- The unemployment benefit is paid for a maximum duration of 6 months</li> </ul>
Waiting period	7 days	

# PROPOSED CONTRIBUTIONS

	Option A	Option B
<b>Benefit expenditure</b>	0.30	0.53
<b>Administrative expenditure</b>	0.30	0.30
<b>Minimum contribution rate to ensure the scheme's sustainability over the projection period <sup>(a)</sup></b>	0.60	0.83
<b>Additional contribution rate to accumulate a stabilization reserve</b>	0.15	0.22
<b>Recommended contribution rate <sup>(b)</sup></b>	0.75	1.05

# TRANSITING TO UNEMPLOYMENT INSURANCE

The severance pay in Sri Lanka, when combined with either design options A or B, appears to be overly generous, especially for employees with several years of service with the same employer. In addition to being globally expensive, the overall compensation package on termination makes the combination of the two schemes counterproductive, and a reform or an elimination of the severance pay in Sri Lanka should be considered by stakeholders.

# PRESENT CONTRIBUTION OF EMPLOYERS

Scheme	Contribution
EPF	12%
ETF	3%
Workmen Compensation	0.35% (estimation)
Maternity Benefits	0.5% (estimation)
Compensation under TEWA(Not applicable to every employer)	0.2% (estimation)
<b>Total</b>	<b>16%</b>

# SOURCE OF FUND

ETF seems to be one of the option mentioned in the report , but no discussion has not been started yet. Given the recent changes in the government and policies, it is too early to conclude on this matter.